GFC FINANCIAL MANAGEMENT
“Financial Advice you Can Trust”

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Understanding Volatility and the Benefits of a Long-term Investing Strategy

Investors typically include equities in their long-term plans with the expectation of generating a positive return. Historically, over longer periods of time, this strategy has helped many investors achieve their desired goals. While it would be accommodating if equity markets presented a simpler way to generate investor returns, that is not the case. To produce equity returns, an investor needs to understand that many factors, including interest rate movements, inflation, economic activity, geopolitical events, and corporate earnings, can affect the daily, monthly, and even annualized rate of equity returns. Considering these uncertainties, a qualified financial professional will customarily meet with clients to understand their personal situation, timelines, and objectives. At that point, a long-term strategy can be outlined so an investor can prepare for the potential dips and dives that equity investing can include.

The equity markets recent volatility, or rapid changes in equity prices, have presented an opportunity for us to reinforce that, while investors cannot control equity market movements, they can control their behavior and the decisions they make when this type of turbulence occurs.

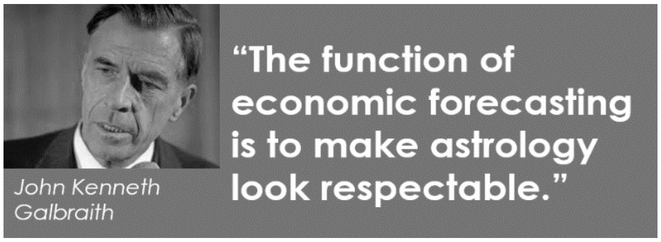
This year, there has been a considerable volume of uncertainty in the economic environment. Despite this, the stock market has managed to overcome numerous challenges. The Federal Reserve is currently facing the arduous task of steering the economy toward an economic recovery with a hopeful soft landing. However, there are worries that the U.S. may not achieve this soft landing and could instead experience a period of recession. As a result, market volatility has increased significantly in recent weeks.

There is great concern that the Federal Reserve has been slow to respond to signs of a weakening economy and may need to cut interest rates quickly. The fear of a U.S. recession has caused worry and unease in global stock markets. In August of 2024, the Japanese equity market experienced its worst one-day crash since 1987. Combine that with recent geopolitical unrest in the Middle East, and on any given night, investors can hear many confusing and disturbing reports. Investors always face the challenge of being barraged with countless items that could incite fear and potentially emotionally based, knee-jerk moves in their portfolios.

When equity markets become volatile, it's always healthy to take a deep breath and remember that - market volatility is a part of the investment experience, and seasoned investors understand that acting emotionally can be more harmful than helpful.

IDEAS for Investors During a Volatile Market

- Understand and focus on your personal financial goals.
- Have a long-term strategy.
- Think big picture, not day-to-day.
- Limit constantly checking your investments.
- Avoid overexposure to the media.
- **Talk with us about your concerns.**



Acknowledging and preparing for market volatility and downturns, even during favorable market conditions, is essential. Investors should not allow market fluctuations to distract their plans. A well-informed investor recognizes that while markets may rise, they can also fall.

For educational purposes, volatility is a statistical measure of the distribution of returns for a given security or market index. Some stocks are more volatile than others. ***Stock market volatility*** is a measure of how much the stock market's overall value fluctuates up and down. For example, when the stock market rises and falls more than one percent a day over a sustained period of time, it is called a "volatile" market. Please remember that market volatility doesn't mean stocks are headed for a down or bear market. Even if there are market corrections, an investor can still potentially experience reasonable returns over a long period of time. Stock market volatility is inevitible, especially when external events create uncertainty.

We believe that an educated client is the best client. Understanding how volatility works can help you better evaluate overall stock market conditions. It's important for investors to be aware that volatility and risk are not the same thing. For stock traders who aim to buy low and sell high every trading day, volatility and risk are closely connected. Volatility also matters for those who may need to sell their stocks in a short time frame, such as individuals who are older and closer to retirement.

For long-term investors who hold equities for many years, the day-to-day movements of those equities can be scary. Volatility can be a distraction when you are allowing your investments to compound long into the future.

Long-term investing still involves risks, but those risks are usually related to being wrong about a company's growth prospects or paying too high a price for that growth -- not volatility.

An Important Review of Market Terminology

Considering recent events and the countless media resources available that may not be using market terminology accurately, we feel it is important to clarify the correct meaning of common market terminology.

- **Dip** - a short-lived downturn from a sustained longer-term uptrend.

  Example: Equity markets increased by 6%, maintained that level, and then dipped back down 4%, all within a few days or weeks.

- **Correction** - a drop of at least 10% but not over 20% in the market from recent highs. Historically, corrections have lasted an average of four months.

  Example: On December 17, 2018, both the DJIA and the S&P 500 dropped over 10% and declines continued into early January.

- **Bear Market** - a long, sustained decline in the stock market. If the market declines 20% from its recent high, this is considered the start of a bear market.

  Example: On Wednesday, March 11, 2020, The DJIA dropped 5.9%, for a total decline of 20.2% from a record high on February 12, 2020.

- **Recession** – refers to a general slowdown in economic activity. A recession is generally defined as two consecutive quarters of negative GDP growth. While the effects of a recession often cause the stock market to fall, the term itself does not refer to a specific type of market activity.

  Example: After the U.S. housing bubble and global financial crisis, the "Great Recession" occurred from December 2007 to June 2009.

- **Crash** - a sudden and dramatic drop in stock prices, often on a single day or week. Crashes are rare but typically happen after a long-term uptrend in the market.

  Example: In 1929, the market crashed when it lost 48% in less than two months, ushering in the Great Depression.

Navigating Volatility

No matter what equity markets are doing, your plan should always align itself with these three items.

1. **Understanding Your Investment Goals:** Each investor has individual goals they want to achieve. Identifying your goals is the initial step in creating a plan to reach them. Your goals will help define your time horizon and risk tolerance.

2. **Focusing On Your Financial Timeline:** Remember to focus on your personal timeline instead of trying to time the market. During downturns, it may be tempting to pull out of the market, but doing so may cause you to miss out on a healthy recovery. Therefore, plan for your equity investments with a long-term horizon in mind and try to ignore short-term fluctuations in the market. Keep in mind that short-term movements of the market are unpredictable and don't follow any specific pattern. If you have a long-term investment horizon of at least five years, chances are that the current volatility will pass - maybe in a few weeks, months, or, at most, a few years.

3. **Understanding Your Risk Tolerance:** Risk tolerance is the level of uncertainty you are willing to accept to reap potentially greater rewards. Knowing what your risk tolerance is, or risk awareness, should be part of your financial plan.

As your financial professional, one of our primary goals is to help you create a plan that considers your goals, your time horizon, and your risk tolerance.

During times of volatility, it is important to, first and foremost, not panic! In times of market volatility, investors can become anxious. This is usually not the best mindset to make rational decisions.

When equity markets experience unsettling fluctuations, we suggest you ask yourself these questions:

1. ***Have my financial timelines changed?***
2. ***Have my financial goals changed?***
3. ***Has my risk tolerance changed?***
4. ***Has my liquidity needs for short and near-term needs changed?***
5. ***As a long-term investor, could this be a buying opportunity?***

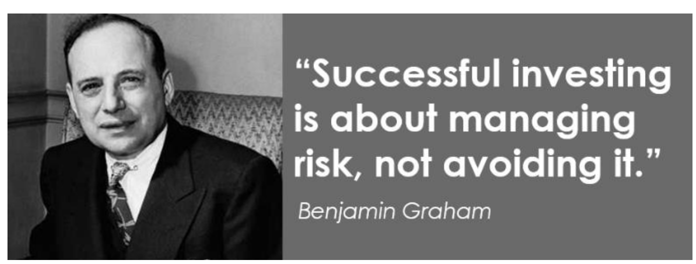
If you are unsure of any of these questions, we suggest that you discuss them with us.

Stay the Course and Discuss Any Concerns with Us

Remember, market downturns do happen and so do recoveries. We are closely monitoring the financial landscape. Again, we believe that an educated client is the best client. To reinforce this, we will keep you updated on any issues that we believe could potentially impact you.

Market fluctuations have always been a part of financial markets and are likely to continue. Even if you have a long-term horizon, you may experience some short-term declines in your portfolios. It is always helpful to ensure that your investment plan is aligned with your personal goals and timelines. It is also advisable to confirm that you are still comfortable with your investments. We are always available to review your financial holdings to confirm that they are still in line with your timeline goals and risk tolerance.

A disciplined approach to investing is the basis of a sound financial plan. Our objective is to focus on your goals while recognizing the near impossibility of predicting the severity or duration of market fluctuations. We are dedicated to creating plans for our clients that take these factors into consideration. The best financial plan is long-term-focused and positioned to weather uncertain and volatile times.



As a reminder, please keep us informed of any changes (such as health issues or alterations in your retirement goals). The more we understand about your unique financial situation, the better equipped we will be to advise you effectively.

We take pride in providing:

- consistent and effective communication,
- a schedule of regular client meetings, and
- ongoing education for every member of our team on the issues that impact our clients.

If you would like to discuss your situation with us, please call our office.

Do you know anyone who is concerned about how VOLATILITY affects their investments?

If so, we would be happy to share a copy of this article.

Please call Sue or Beth at GFC Financial Management at 727-724-9499 so we can send them this valuable information!

George F. Cerwin, CFP®, CLU is President of GFC Financial Management and has over 45 years of experience working with retirees and those about to retire. George offers Securities and Investment Advisory Services through **Osaic Wealth, Inc.** member FINRA and SIPC. Insurance Services offered through GFC Financial Management, not affiliated with **Osaic Wealth, Inc**. Visit our website: www.gfcfinancial.com. Our office address is 2764 Sunset Point Road, #600, Clearwater, FL 33759 and phone number 727-724-9499.

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